

VZCZCXRO9551
RR RUEHAG RUEHROV RUEHSL RUEHSR
DE RUEHMD #1165/01 3411541
ZNY CCCCC ZZH
R 071541Z DEC 09
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 1544
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 4262
RUCPDOG/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 MADRID 001165

SIPDIS

STATE FOR SPECIAL ENVOY MORNINGSTAR AND JULIA NESHEIWAT

E.O. 12958: DECL: 12/07/2019

TAGS: [ENRG](#) [PREL](#) [EINV](#) [SP](#)

SUBJECT: SCENESETTER FOR AMBASSADOR MORNINGSTAR'S VISIT TO SPAIN

MADRID 00001165 001.2 OF 003

Classified By: A/DCM William Duncan for Reasons 1.4(b) and (d)

Summary

1.(U) Embassy Madrid welcomes your visit, which will be an opportunity to raise with the GOS our European energy security concerns as Spain prepares to assume the European Council presidency in January. U.S.-Spain relations are strong and based on shared global interests, including our association in NATO, the fight against terrorism, and growing economic ties. Spaniards are enthusiastic about President Obama, and the GOS is optimistic about the prospect for closer bilateral relations and enhanced engagement. The high-profile October 13 meeting between our two presidents, President Zapatero's first White House meeting in his five years in office, has contributed to the momentum for closer bilateral ties.

Bilateral Relations

2.(U) We value Spanish cooperation on security issues and in the fights against terrorism and narcotics. Spain is a strong bilateral defense partner, despite differences in the past over its sudden withdrawal from Iraq in 2004 and its withdrawal this year from the NATO force in Kosovo. Spain operates a Provincial Reconstruction Team in Afghanistan with about 1,000 troops participating in ISAF. President Zapatero has announced his intention to support President Obama's call for more NATO ally participation by sending more Spanish troops, though exact numbers will be determined after consultations with the Defense and Interior Ministries. Spain also allows us the use of two military bases that are crucial transit points between the U.S. and Afghanistan and Iraq. Counter-terrorism and law-enforcement cooperation is strong, as are commercial relations.

Political Context

3.(SBU) President Zapatero won reelection to a second term in 2008. His center-left Spanish Socialist Workers Party (PSOE) is seven seats shy of a Congressional majority and fared poorly this year in regional and European Parliament elections. Zapatero's popularity has suffered because of the long recession and what are viewed as the government's ineffective efforts to address it. The conservative opposition Popular Party (PP) has not capitalized on Zapatero's unpopularity, as it has suffered internal divisions and has been dogged by corruption accusations. Zapatero has sought to show that he is taking a leading international role in the response to the economic crisis, and the EU presidency gives the GOS an opportunity to play up its international role.

Economic Context

4.(U) Spain grew much faster than the EU average over the 15 years through 2007 and now has the world's 9th largest economy. The rapid growth was driven by a housing boom that ended in 2007, after which the world economic crisis aggravated the economy's woes. Spain has been in recession for 20 months. The economy is expected to continue contracting until sometime in 2010, which would make it the last large economy to begin recovering. Unemployment, now over 19%, is expected to pass 20% next year. The GOS has responded with a major fiscal stimulus. This has boosted the budget deficit to around 10% of GDP, and the GOS will have to curb spending in the next few years.

5.(U) Zapatero intends to reorient Spain's economy towards more sustainable sectors. Renewable energy is a key part of Zapatero's vision, in fighting climate change as well as in promoting energy security and developing new industries. Generous (and costly) feed-in tariffs have helped make Spain a world leader in wind and solar power, and Iberdrola and Acciona are the world's two largest wind power generators.

6.(U) Renewable energy is also an important part of the bilateral economic relationship. Spanish companies own wind farms and wind turbine manufacturing plants in around 20 states. Iberdrola wind projects have received over \$500 million in U.S. stimulus funds, and Acciona has applied for \$200 million. Spanish firms have several solar and biofuels projects in the U.S. as well. Spanish companies and government bodies collaborate with DOE on research, and some have received USG grants for wind, solar, and biofuels activities.

MADRID 00001165 002.2 OF 003

7.(U) In recent years, Spain has become a major investor in the United States in other sectors as well, including banking, road construction, and food. The GOS and Spanish companies see the USG as providing Spanish companies opportunities in these areas and others through the stimulus package, climate change legislation, and efforts to sell troubled banks, and the GOS portrays close bilateral relations as helping Spain's economic interests.

EU Presidency

8.(SBU) The GOS has named a wide range of issues as priorities of its presidency. Its most frequently mentioned priorities are coordinating economic recovery and reform measures, coordinating implementation of the Lisbon Treaty (including adjusting to the roles of new President Van Rompuy and High Representative Ashton), and promoting gender equality. President Zapatero and other GOS officials often cite strengthening transatlantic relations as another top priority. The GOS wants a more substantive TEC meeting and is enthusiastic about the US-EU Energy Council, particularly in the areas of renewable energy and energy technology. The business community appears relatively uninterested in EU presidency issues, and in EU issues in general, compared to its counterparts in other EU countries.

Energy Security

9.(U) Spain does not produce significant quantities of oil or gas, and for most Spaniards, energy security means promoting renewable energy (and for some, nuclear) to reduce the country's dependence on imported oil and gas. Spain is not dependent on Russian gas; about 70% of its gas is LNG from a variety of suppliers. About 30% of its gas comes from Algeria, mostly by pipeline. The public and most of the business community see issues such as Russia/Ukraine gas, Nordstream, and Nabucco as related to overall European energy security but not as having immediate domestic implications.

10.(SBU) The Foreign Ministry and the Energy Secretariat of State will be the key players on these issues during the Spanish presidency. Secretary of State for Energy (in the Ministry of Industry, Tourism, and Commerce) Pedro Marin has the lead within the GOS on EU presidency energy issues. Officials from the Foreign Ministry's bilateral secretariat and European Union secretariat also have roles, and National Security Advisor-equivalent Milagros Hernando is involved in many big-picture international policy issues. Recent occasions in which senior officials focused on European energy security issues included Foreign Minister Moratinos' visit to Ukraine, EU Secretary of State Diego Lopez Garrido's visit to Russia, and Secretary of State Marin's attendance last month at the US-EU Energy Council launch in Washington, where he spoke with you.

11.(SBU) GOS staff-level officials welcome the possibility of increasing gas interconnections, both for supply security reasons and to bring prices down. During its presidency, the GOS will seek to promote Nabucco. North Africa is a key GOS interest, and the GOS will encourage the EC to present proposals to strengthen European gas and electricity connections with North Africa through the Mediterranean Ring project. It will organize in Algeria a meeting of governments interested in the large Desertec solar electricity project.

12.(C) The GOS generally has positive relations with Russia, and Zapatero and other officials have identified as a presidency priority moving forward on a new EU-Russia strategic accord. Foreign Ministry sources say they see the possibility of a January Russian gas cutoff of Ukraine as remote but one that cannot be entirely discounted. Zapatero and the royal household are comfortable enough with Russia that they were willing to risk criticism from economic nationalists inside and outside the government last year by trying to encourage the sale to Lukoil of the 20% stake in Repsol owned by a troubled construction company sympathetic to the ruling party. (The effort was abandoned after oil prices fell and Lukoil lowered the amount it was willing to pay.)

Repsol

13.(C) You will be hosted for a lunch December 17 by Repsol chairman Antonio Brufau. Repsol was the world's 15th largest petroleum refiner by revenue in 2008. USG interactions with it have focused on our interest in discouraging it from

MADRID 00001165 003.2 OF 003

investing in Iran's Persian LNG South Pars project, in which it is a partner with Shell. The two companies have taken no investment decision and are negotiating with a Chinese company to enter the project in order to reduce their stake. Company officials understand the USG position that now is not the time to do anything that the GOI could portray as business as usual. However, they are maintaining frequent contact with the GOI and retain a long-term interest in the country's resources. They understand that Iran is not the focus of your visit. GOS concern over Repsol's interest in Iran may be a factor, along with a reflexive preference for dialogue and skepticism over the effectiveness of sanctions, shaping GOS views on new sanctions against Iran. (Nonetheless, the GOS actively enforces existing sanctions and understands the importance of addressing Iran's nuclear ambitions.)

14.(U) Repsol operates in over 30 countries, exploring primarily in north and west Africa and Latin America. The company has in the last several months announced its largest-ever gas find in Venezuela (offshore), large oil and gas finds in Brazil (offshore), and a large gas investment in Bolivia. Brufau squirmed Venezuelan president Chavez around town during Chavez' September visit. Repsol also has operations in the Gulf of Mexico and an office in Houston. The company is reported to be seeking to increase its

presence in developed countries. Press articles suggest that Brufau has come under fire in recent months for cutting back the company's dividend rather than cutting exploration and that his position is not solid; the critics include corporate stockholders with cash flow problems.

CHACON